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경영학 석사학위논문

An Analysis of the Function of Boards of Directors:

**The moderating effect of BOD on the relationship
between slack and CSR in Korean Firms**

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ABSTRACT

With controversial arguments on the prime function of a board of directors, this study aim to determine the major role of the board in Korean companies, and to address the possible change caused by cultural factors in the role of the board. This research explores the issues in perspective of agency theory, resource dependence theory, and stakeholders theory; moderating effects of independent directors and Anglo-Saxon directors on the relationship between organizational slack and CSR investment are also empirically examined. Using data of 1,662 publicly traded Korean manufacturing firms gathered within the period of 2008 to 2013, the study shows that independent directors strengthen the relationship between organizational slack and CSR investment in Korean firms, whereby Anglo-Saxon directors, who are mostly from countries with shareholder-centered view of corporate law, weaken the relationship, provided, that they exceeded non-Anglo-Saxon directors in number. One possible explanation for the former finding is that key functions of a board of directors in Korean firms may be to advise managers and to provide resources to firms, lending supports to resource dependent theory and stakeholders theory perspectives. The latter result, on the other hand, indicates that a prime role of the board could appeal in a different way, drawing on cultural factors such as the country's corporate law tradition.

Keywords: Board of directors; Organizational slack; Corporate Social Responsibility; Agency theory; Resource dependence theory; Stakeholders theory

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I. Introduction

To date, the role of a board of directors (BOD) and the impact on firms' strategic behavior have been one of the favorite topics for management scholars. This growing attention for directors seems to represent their importance in firm management; however, previous studies have shown two controversial theories to explain the key function of boards. One explains directors as monitoring body to control managements, while the other regards them as advisors for managers (Hillman and Dalziel, 2003).

Agency theory, one theoretical base, argues that the primary function of a board would be to control managers' self-interest behavior. As a monitoring force, this internal mechanism also helps to reduce agent cost on behalf of shareholders (Eisenhardt, 1989; Fama and Jensen, 1983; Jensen and Meckling, 1976).

Resource dependence theory, another theoretical base, views that the major role of the board is to provide important resources for the company, such as advice, counsel, and networks to external organizations (Hillman and Dalziel,

2003). As resource providers, board members are also expected to support and advise CEOs to manage corporations, and to respond to surrounding environment (Boyd, 1990).

Although considerable research has been done, defining the role of a board in accordance with one of these theories (i.e., agency theory or resource dependence theory), and then being devoted to explaining the effect of a board to firm's strategy, rather less attention has been paid to reveal which function is more emphasized in specific country, and how this monitoring or supporting function could be changed with cultural influence on the board.

In this study, we try to ascertain the major function of a board of directors in Korea, and to address the possible change caused by cultural factors in the role of the board. Specifically, we identify the key function of the board by examining the moderating effect of outside directors on the relationship between organizational slack and CSR investment in Korean companies. Various research conducted on organizational slack and CSR investment relationship has tended to present positive relationship between them (e.g.,

Arora, 2008; Seifert et al., 2004; Buchholtz et al., 1999; Waddock and Graves, 1997); thus, we might determine the role of a board in Korea, observing a positive or negative moderating effect of it on slack-CSR relationship. We also try to assess the cultural influence on the role of the board by testing the moderating effect of foreign directors from different countries on slack-CSR relationship.

The plan of this paper is as follows. In the next Section, the literature is reviewed in order to argue upon the theoretical bases on the role of a board of directors. In Section 3, hypotheses are developed; methodology is then described in Section 4. Section 5 presents the empirical results, and finally, discussions are followed.

II. LITERATURE REVIEW

1. Agency theory and resource dependence theory

Agency theory represents that a critical function of a board of directors is to monitor and control opportunistic behavior of managers on behalf of shareholders (Eisenhardt, 1989; Jensen and Meckling, 1976). As an internal mechanism to reduce agency cost, a board is expected to make sure that managers' action is aligned with shareholders' interest by policing managements (Fama and Jensen, 1983).

Resource dependence theory, on the other hand, provides an opposite view for explaining a function of a board. As Pfeffer and Salancik (1978) state, a firm is considered to be a reliant organization on its external environment. Proponents of this view argue that a core function of a board is to offer valuable resources to the firm so that directors could support and advise managers effectively (Ayuso and Argandoña, 2007). The board, accordingly, is supposed to offer advice and counsel to managements; to provide linkages to external organizations; and to bring supports from outside of the company, through

communications with external communities (Hillman and Dalziel, 2003). Of considerable importance, these linkages and supports from outside of the company often enable the firm to moderate its dependency to external environment, thus declining its uncertainty (Pfeffer, 1972; Pfeffer and Salancik, 1978). In doing so, a firm could be able to understand and respond to surrounding organizations and environment more effectively (Boyd, 1990).

2. Organizational slack and CSR

Cyert and March (1963) suggests that organizational slack is surplus or unoccupied resource; in other words, the resource that exceeds the minimum requirement to manage a firm. Nohria and Gulati (1996) also define organizational slack as spare resource after producing appointed amount of output. Organizational slack, thus, is often referred to as a “cushion of actual or potential resources” for a firm’s strategic decision so that it enables the firm to successfully respond to internal or external pressures for changes (Bourgeois, 1981). Possessing appropriate level of slack, relationships among top manager

teams as well as a firm's strategic behavior including discretionary issues such as CSR could be affected (Buchholtz et al., 1999).

Much research has been conducted on organizational slack and its effect on a firm's various decision makings. Among those strategic decisions, investment in CSR has been paid growing attention by management scholars. Arora (2008) determines a positive relationship between organizational slack and corporate social performance (CSP), focusing on discretionary properties of organizational slack and CSP. Seifert et al. (2004) undertakes a study on organizational slack and a firm's charitable donations, measuring organizational slack by cash flow which is one of the most discretionary kinds of slack. Buchholtz et al. (1999) also suggests a positive relationship in organizational slack and a firm's philanthropic giving. In addition, Waddock and Graves (1997) states that existence of uncommitted resources could offer a company opportunities to be engaged in social causes such as CSR. CSR investment, therefore, is likely to be increased with growing availability of slack resources.

While organizational slack has proven to be one of the major antecedents of CSR investment decision in previous studies, effective boards might moderate the tendency. As noted earlier, conflicting theories explain two different functions of boards. Agency theorists assert that boards have monitoring functions to govern managers' opportunistic behavior; on the contrary, resource dependence theorists emphasize advising roles of them (Hillman et al., 2000); thus, directors are able to help a corporation to respond to surrounding environment effectively as resource providers (Boyd, 1990). With boards being tested as a moderator, moderating effect on the relationship between organizational slack and CSR would be presented in a different way. Between these two theories explaining the role of BOD, accordingly, we might identify which theory dominates the relationship.

More specifically, when board members work as monitoring bodies for top management teams, a relationship between slack and CSR might be moderated in negative way by the board factors, indicating that agency perspective dominates the relationship. On the sharp contrast, if a major function

of boards is to provide core resources for a firm, the board factors are more likely to moderate slack and CSR relationship in a positive direction; they might enable managers to foster CSR investment. In this situation, resource dependence perspective could be suggested to dominate the relationship.

3. Agency theory, slack, and CSR

To date, much research on CSR has been undertaken by both opponents and proponents. The key opposition to CSR stems from agency theory's stance, which states that the major objective of managements is to increase shareholders' value. In this perspective, Friedman (1970) suggests that managers, as agents of shareholders, should not give away shareholders' money without knowing their intention. Investment in CSR, therefore, could not be justified if the action has failed to maximize shareholders' welfare; otherwise, it may indicate a misuse of shareholders' money (Buchholtz et al., 1999; Friedman, 1970).

CSR investment, however, might increase with availability of uncommitted resources. Existence of slack resources, often being referred to as a "cushion of actual or potential resources," could be a major factor that

determines level of shareholders' satisfaction (Bourgeois, 1981). With a firm possessing appropriate level of slack resources, shareholders' satisfaction is expected to incline, which enables managers to be much less responsible for shareholders' demand (Arora and Dharwadka, 2011). Under this circumstance, the company might have high opportunity to be engaged in discretionary activities with social causes, thus leading to more investments in CSR (e.g., Waddock and Graves, 1997).

Agency theorists also argue that investment in CSR is more likely to be against shareholders' preference since no direct financial benefit is affirmed to shareholders (Wang and Coffey, 1992). Managers, however, may have incentives to seek CSR because they do not have any residual claims on company's income. By committing slack resources to CSR activities, managers could obtain opportunities to be members of social elites (Coffey and Wang, 1998), to impress important stakeholders or community influences, and to put on "managerial masques" by improving their image (Haley, 1991). Because of

these incentives, managers are more expected than shareholders to pursue CSR investment.

4. Stakeholders theory, resource dependence theory, slack, and CSR

An alternative approach, stakeholder theory, provides another rationale to explain a firm's CSR investment. As Freeman (2010) states, stakeholders are "any groups or individuals who can affect or are affected by the achievements of the firm's objectives." The theory then argues that merely meeting shareholders' demands is not enough (Collier, 2008) because the major objective of a company is to satisfy stakeholders of the firm with different interests (Ansoff, 1965). Stakeholder theory, accordingly, takes external environment surrounding a firm into account. Furthermore, Buhl (1996) also suggests that a firm has a social role to play as a reciprocity for being provided with opportunities to operate in marketplace.

In this perspective, board resources are expected to aid firms to undertake required social roles, thus enhancing satisfaction of different

stakeholders in society. Stakeholders theory addresses that a board of directors, as a major governing body of corporations, has obligation to preserve stakeholders' demands (Hill and Jones, 1992). Meanwhile, resource dependence theory proposes that boards could be able to carry out their duties by providing needed resources for firms to understand and respond to surrounding environment (Boyd, 1990). Bear et al. (2010) also suggests that the potential for problem solving and external environment understanding is more likely to be enhanced when boards effectively and responsibly perform their obligations as resource providers. This effectiveness of boards as resource providers might be achieved through combined knowledge and skills of the directors involving linkages to external influentials or stakeholders (Hillman and Dalziel, 2003). These network ties to outside of firms would also be able to provide connections to external organizations, thus increasing understandings to external circumstances (Beckman and Haunschild, 2002).

Considering these dependencies on environment and possible aids from external stakeholders to avoid environmental uncertainties, Freeman and

Velamuri (2006) even asserts that firms pursue CSR to undertake their obligation, which is to enhance stakeholders' welfare. Barnett (2007) also argues that CSR could be a means to develop a sincere relationship with key stakeholders, which leads to create stakeholders' value and to promote social welfare.

5. Integrating organizational slack, CSR, and BOD

As discussed before, much research has proposed a positive relationship between organizational slack and CSR investment (e.g., Arora, 2008; Seifert et al., 2004; Buchholtz et al., 1999; Waddock and Graves, 1997), and that it could be moderated by functions of boards. This moderating effect, however, could also function in the opposite direction depending upon whether the key role of boards is to monitor managements, or to advise them as resource providers.

If the major function of a board is to monitor top managements' behavior on behalf of shareholders (Eisenhardt, 1989; Jensen and Meckling, 1976), the relationship between organizational slack and CSR would be negatively moderated. Investment in CSR does not affirm direct financial

benefits to shareholders, thus being against shareholders' preference (Wang and Coffey, 1992). As in agency theorists' argument, accordingly, a board is expected to screen CSR investment. In other words, directors are hired to contain managers' actions that do not align with shareholders' interests; therefore, an effectively functioning board is supposed to deter and eliminate managers' intention for CSR investment (Coffey and Wang, 1998). In accordance, an effective board would negatively moderate the relationship between slack and CSR.

Nevertheless, if the prime role of a board is to advise top managers as a resource provider, the relationship between organizational slack and CSR would be positively moderated. Stakeholders theorists argue that a board should preserve stakeholders' needs (Hill and Jones, 1992) because the major objective of a company is to create stakeholders' value (Ansoff, 1965). CSR is thus to be promoted as a means to achieve a firm's objectives, and also to develop sincere relationships with key stakeholders (Barnett, 2007). Resource dependence theorists, moreover, assert that a board could offer its human resources to firms

to enhance stakeholders' value, and to help them to understand and respond to external environment (Boyd, 1990). With the effectively performing board, a firm's potential for problem solving abilities and external environment understanding could be enhanced (Bear et al., 2010). As in the perspectives of stakeholders theory and resource dependence theory, a board is more likely to foster CSR investment; therefore, an effective board would positively moderate the relationship between slack and CSR.

III. HYPOTHESES

1. Organizational slack and CSR

Before determining a positive or negative moderating effect of boards, the relationship between organizational slack and CSR should be addressed. As slack resources are considered as main antecedents to influence managers' decision on CSR investment, the relationship between organizational slack and CSR investment has been much discussed by management scholars. Arora (2008), for example, asserts that organizational slack positively affects a firm's corporate social performance (CSP); Seifert et al. (2004) proposes a positive relationship between slack and a firm's charitable donations; Buchholtz et al. (1999), Waddock and Graves (1997) also present the similar results.

Therefore, the following hypothesis is developed:

Hypothesis 1. *Organizational slack would be positively associated with CSR investment.*

2. Independent directors

To identify the key function of a board, a moderating effect of outside directors on the relationship between organizational slack and CSR investment would be examined.

Boards of directors consist of inside directors, who currently or formerly have served for the firm as management team members or employees; dependent outside directors, who either are family members or have direct or indirect relationships with managers; and independent outside directors who have no kind of relationships with the organization (Ayuso and Argandoña, 2007).

Among those directors, in agency theory's perspective, independent directors are regarded as prime factors that have much influence on the monitoring function of boards. Boards' effectiveness in monitoring could be enhanced with existence of independent outside directors because their interests are usually not align with those of managers (Fama and Jensen, 1983; Jensen and Meckling, 1976).

Furthermore, agency theorists argue that independent directors, who are primarily hired to monitor managers' opportunistic behavior and thus to protect shareholders' value, might not consider CSR investment as one of the value-enhancing activities since it assures no predictable return on a company's profit (Arora and Dharwadka, 2011). Baysinger and Hoskisson (1990) also ascertains that independent directors are likely to support the decision that is based on historically proved information rather than investment with great uncertainties. Managers, on the contrary, are suggested to have incentives to pursue CSR investment in previous studies: they might be members of social elites (Coffey and Wang, 1998); they could impress important community influences by improving their image (Haley, 1991).

Therefore, to deter managerial opportunism, independent directors may oppose a firm engaged in CSR investment. As the proportion of them on boards increases, effectiveness of boards' monitoring function might also incline, limiting uncertain investments including CSR.

This argument leads the following hypothesis:

***Hypothesis 2a.** The effect of organizational slack on CSR would be negatively moderated by the increase in the proportion of independent directors on the board.*

As discussed above, on the contrast, resource dependence theorists view that the prime function of a board is to help managements, providing them valuable resources including counselling, advising, and communicating channels to external environment (Hillman and Dalziel, 2003).

Following this logic, existence of independent directors on the board could improve further effectiveness of it as a resource provider, by offering managements more informatics resources than that of insiders, since outsiders might be more experienced with external stakeholders' needs (Johnson and Greening, 1999). Also, outside directors are assumed to be more sensitive to various stakeholders' demands and to be more active in responding to outside society (Ibrahim and Angelidis, 1995). Furthermore, they usually do not feel pressures despite intense competition with a competing industry (Sonnenfeld, 1981); because, their prime concern is to enhance stakeholders' value, not to

focus too much on firms' short-term financial performances (Ibrahim and Angelidis, 1994; Ibrahim et al., 2003). Independent directors, accordingly, are expected to be more supportive on costly investments (Johnson and Greening, 1999), such as CSR.

As the proportion of outside directors on boards increases, thus, CSR investment could be fostered, enhancing understandings on external stakeholders and society.

Therefore, the following hypothesis is derived:

***Hypothesis 2b.** The effect of organizational slack on CSR would be positively moderated by the increase in the proportion of independent directors on the board.*

3. Foreign directors

Although the prime function of a board may probably be identified by the result of the hypotheses developed above, cultural backgrounds of directors could also impact on the role of it. Cultural influences on a key function of a board, then,

is to be tested by observing moderating effect of foreign directors from different countries on slack-CSR relationship.

As Schneper and Guillén (2004) suggests, legal tradition of a country, which forms a base for corporate law, would have an influence on extents of shareholder rights' protection. They also state that corporate law follows a country's economic, military, and cultural factors. In addition, a country's corporate law could greatly affect a firm's corporate governance, which is most commonly differentiated into shareholder-centered model or stakeholder-centered model (Roe, 2000). Many countries adopt either shareholder-centered or stakeholder-centered model, according to their legal tradition, and corporate law.

Shareholder-centered model of corporate governance is mostly based on English common law, emphasizing “external” mechanisms—i.e. widely held ownership, efficient marketplace—to control managers (Roe, 2000). Countries under common law tradition include most of former British colonies: US, Australia, Canada, and UK (Schneper and Guillén, 2004). In this perspective, a

board would be functioning as one of the mechanisms to monitor managements' behavior.

On the sharp contrast, stakeholder-centered model has its foundation on German civil law; countries adhere to this model of corporate governance greatly focus on "internal" mechanisms, which include advising BOD who actively relies on the cooperation with outside stakeholders to affect managements (Schnepfer and Guillén 2004). German, Japan, Korea and many of other countries which had not been British colonies follow stakeholder-centered view of the firm.

Foreign directors, therefore, are more likely to be influenced by the legal tradition and corporate law of their native countries. Accordingly, directors from the countries with common law tradition (i.e., US, UK, and other former British colonies) might follow shareholder-centered behavior, performing as monitoring bodies of managements. Foreign directors from the other countries, such as German, Japan, or Korea, could act in stakeholder-centered view; they

would support managements as resource providers, helping managers understand and deal with external environment more effectively.

This formulates the final hypothesis:

Hypothesis 3. *The effect of organizational slack on CSR Investment would be negatively moderated when the number of foreign directors from countries with shareholder-centered view is larger than that of foreign directors from countries with stakeholder-centered view on the board.*

IV. METHODS

1. Study sample and data

In order to investigate the prime function of a board of directors, we establish empirical setting to examine the hypotheses in Korean context. As far as we know, most of studies on the role of a board have been undertaken in Western context, while little research had been conducted in non-Western context, especially in Korean. As one of the Asian countries that are expected to follow a different type of corporate law than of western countries, Korea would provide a meaningful setting for determining the major function of a board.

Every firm in Korea traded in Korean Stock Exchange (KSE) has mandatorily contained outside members on the board since 1994, the year when Securities Exchange Act was amended; Korea Securities Dealers Automated Quotations (KOSDAQ), also, have been applied to the same Act since 2004. Considering the possible lag time of the Act to take actual effects on most of the traded companies, we established the period for the data-search would be set as from 2008 to 2013.

Meanwhile, the sample was selected from all manufacturing firms which had been listed on the KSE and KOSDAQ. Companies in banks/financial service industries, on the other hand, were excluded because of the different accounting practice and regulatory in those industries. We also excluded the firms with omitted variables. As a result, the final sample was composed of 1,662 firms for 2008–2013.

The information regarding boards of directors are generated from TS2000. Data on all the other variables was obtained from FnGuide, being also cross-checked with data gathered from KISVALUE.

2. Statistical analysis

As the data for this research is a balanced panel data with six years' time periods, a random effects model was used to analyze the sample. The random effects model is considered to estimate the sample more efficiently than the fixed-effects model does (Greene, 2008).

3. Variables

1) Dependent variable

CSR investment

CSR investment was calculated as the ratio of total donations to total sales. Though CSR investment in corporations is occasionally delivered by establishing exclusive foundations or reporting their CSR activities, we collected corporate donations data from each firm's financial statements to use as the dependent variable, *CSR investment*. This measurement was used due to difficulties of determining actual expenditure on CSR investment through foundations or reports, whereas corporate donations provide objective data of corporate spending (Kang and Cheon, 2011); in other words, based on data availability and transparency related to CSR investment, corporate donations data might not be transferable with others (Choi et al., 2009). Furthermore, out of the total expenditure on CSR investment, corporate donations data are reported to be 53%, 54.9%, and 60.8% for 2008, 2009, and 2010 respectively according to the Korean Corporate Community Relations White Book, accounting for major portion of the total CSR expenditure.

2) Independent variable

Organizational slack

Organizational slack was operated as the ratio of cash flow—operating income before depreciation minus the sum of interest, taxes, dividends—to total sales (Lehn and Poulsen, 1989; Lang et al., 1991; Seifert et al., 2004). Researchers have sorted various forms of organizational slack, which includes excess of raw materials, machines, inventories, labor force, or many others; however, it has been widely agreed that the most discretionary resource of firms is cash (Sharfman et al., 1988; Arora and Dharwadka, 2011).

3) Moderating variables

i. Independent directors

Independent outside directors indicate the directors who have no kind of relationships with the firm (Ayuso and Argandoña, 2007). *Independent directors* is measured as the ratio of independent directors to the total number of board members.

ii. Anglo-Saxon directors

Anglo-Saxon directors was measured as a dummy variable, showing the dominance of Anglo-Saxon directors among foreign directors. The Anglo-Saxon directors are mostly from countries with shareholder-centered model, whereby non-Anglo-Saxon directors are likely to be influenced by stakeholder-centered model of corporate governance. The variable was coded '1' when the number of Anglo-Saxon directors are greater than that of non-Anglo-Saxon directors and '0', otherwise.

4) Control variables

To limit possible influences of corporate factors on the dependent variable, the effects of five variables were controlled for: firm size, firm age, firm performance, debt ratio, dividend, marketing intensity, and early period.

Firm Size was calculated as the natural logarithm of total sales, and *Firm Age* was operated as the number of years from that the firm was established to the year of observation. *Firm Performance*, in addition, was presented as the return on assets (ROA); this variable has been constantly to have considerable

influence on a firm's CSR investment (Navarro, 1988; Waddock and Graves, 1997).

We also controlled *Debt Ratio*, calculated as the ratio of total debt to total assets. *Dividend* and *Marketing Intensity* were operationalized as the ratio of total dividend or marketing expenditure to total sales, respectively. *Early Period*, finally, was measured as a dummy variable, with being coded '1' if samples were observed in the period of 2008–2010, and '0', otherwise.

V. RESULTS

Table 1 shows descriptive statistics and correlations for the variables uses in our models, including the sample sizes, means, standard deviations, minimums, and maximums. To avoid multicollinearity, we undertook the variance inflation factors (VIFs) analysis. The mean VIF score was 1.48 with all of the scores being below 3.5; thus, multicollinearity is unlikely to be a problem since the common standard for it is 10 or fewer (Cohen et al. 2003).

Table 2 presents the results of the analyses. Models 1 through 3 reports the test results of hypotheses developed above, while Models 4 and 5 shows results of robustness checks for model 2 and 3, respectively.

Model 1 is the base model, which examined the relationship between firms' organizational slack and CSR investment. As predicted in Hypothesis 1, a positive relationship was observed ($\beta = 0.00305$; $p < 0.05$), indicating that the more uncommitted slack resources firms possess, the more they are tend to make high CSR investment.

Table 1 Descriptive Statistics and Correlations

	N	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Firm age	9,765	26.82	16.40	0.00	98.00	1.00									
(2) Firm size	9,718	18.48	1.61	11.28	25.79	0.31	1.00								
(3) Firm Performance	9,664	1.94	14.96	-397.20	118.54	-0.03	0.18	1.00							
(4) Debt ratio	9,719	1.04	2.75	-93.22	69.14	0.00	0.09	-0.12	1.00						
(5) Dividend	9,718	1.68	35.15	0.00	3419.17	0.00	-0.02	0.02	-0.01	1.00					
(6) Marketing Intensity	9,718	0.01	0.03	0.00	1.52	0.02	-0.01	0.02	-0.04	0.02	1.00				
(7) Early Period	9,972	0.50	0.50	0.00	1.00	-0.07	-0.06	0.03	0.01	0.00	0.03	1.00			
(8) Organizational Slack	9,718	0.00	0.64	-41.59	1.37	0.00	0.13	0.18	-0.01	-0.54	-0.10	0.01	1.00		
(9) Independent Directors	9,061	32.42	19.12	0.00	100.00	0.23	0.43	0.01	0.02	0.01	0.06	-0.10	0.01	1.00	
(10) Anglo-Saxon Directors	508	0.32	0.47	0.00	1.00	-0.01	-0.14	-0.12	-0.01	-0.04	0.04	0.04	-0.12	0.05	1.00

Table 2 Random effects estimates, 2008–2013

	Model 1 (n=505)	Model 2 (n=8,985)	Model 3 (n=505)	Model 4 (n=505)	Model 5 (n=505)
Constant	0.00606 (0.00585)	0.00238 ** (0.00078)	0.00120 (0.00527)	0.00750 (0.00582)	0.00397 (0.00550)
Firm age	-0.00004 (0.00004)	0.00000 (0.00000)	-0.00002 (0.00003)	-0.00003 (0.00003)	-0.00002 (0.00003)
Firm size	-0.00037 (0.00034)	-0.00010 * (0.00004)	-0.00003 (0.00028)	-0.00042 (0.00033)	-0.00027 (0.00032)
Firm Performance	0.00001 (0.00003)	0.00002 *** (0.00000)	-0.00007 * (0.00003)	0.00002 (0.00003)	-0.00006 * (0.00003)
Debt ratio	0.00001 (0.00013)	-0.00001 (0.00002)	0.00009 (0.00013)	0.00002 (0.00013)	0.00009 (0.00013)
Dividend	0.00021 † (0.00012)	0.00000 (0.00000)	0.00004 (0.00011)	0.00018 (0.00012)	0.00003 (0.00011)
Marketing Intensity	-0.00147 (0.01622)	0.00705 *** (0.00180)	0.01512 (0.01540)	0.00158 (0.01610)	0.01477 (0.01537)
Early Period	0.00229 * (0.00104)	0.00020 * (0.00009)	0.00092 (0.00096)	0.00210 * (0.00103)	0.00133 (0.00098)
Organizational Slack	0.00305 * (0.00122)	-0.00074 * (0.00031)	0.03683 *** (0.00428)	-0.01570 ** (0.00603)	0.03672 *** (0.00428)
Independent Directors	0.00006 † (0.00003)	0.00001 *** (0.00000)		0.00004 (0.00003)	0.00005 † (0.00003)
Anglo-Saxon Directors	-0.00058 (0.00111)		-0.00016 (0.00103)	-0.00057 (0.00110)	-0.00042 (0.00104)
Organizational Slack × Independent Directors		0.00002 * (0.00001)		0.00056 ** (0.00018)	
Organizational Slack × Anglo-Saxon Directors			-0.03606 *** (0.00439)		-0.03584 *** (0.00439)
Wald Chi-Square	19.490 **	65.590 ***	85.580 ***	29.900 **	88.870 ***

Standardized beta coefficients; standard errors in parentheses

† p < 0.1, * p < .05, **p<0.01, ***p<0.001

Model 2 examined the interaction effects of organizational slack and independent directors' presentation on boards on firms' CSR investment, testing Hypotheses 2a and 2b. We conducted contradictory hypotheses to determine boards of directors' major role in firms' decision making; the results showed the positive moderating effect of increasing proportion of independent directors on boards on slack-CSR relationship, supporting Hypothesis 2b ($\beta=0.00002$; $p<0.05$).

Considering the complexity of this interaction effect, we illustrated interaction plots using lower and upper one standard deviations of independent directors' representation on boards, as displayed in Figure 1.

Hypothesis 3 predicted that the number of foreign directors from countries with shareholder-centered model of corporate law, if it is larger than the number of those who from countries with stakeholder-centered model of corporate law, would be negatively moderate the relationship between slack and CSR. The result provided in Model 3 indicates that Hypothesis 3 was supported, with β of -0.03606 ($p<0.001$).

Figure 1 Moderating Effect of Independent Directors' Representation on Boards

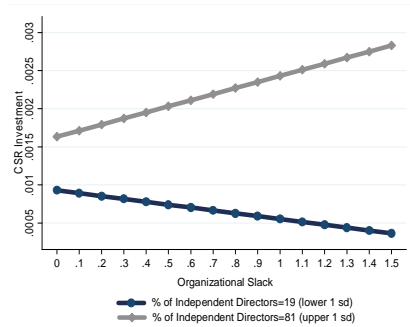
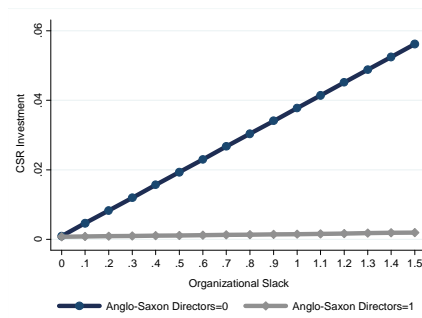


Figure 2 Moderating Effect of Anglo-Saxon Directors' More Representation than non-Anglo-Saxon Directors on Boards



In Figure 2, we can see the positive relationship between organizational slack and CSR investments being weakened, with the larger number of Anglo-Saxon directors than that of non-Anglo-Saxon directors.

Lastly, robustness tests were performed on the moderating effects of *Independent Directors* and *Anglo-Saxon Directors*. With *Anglo-Saxon Directors* variable included, Model 4 still reports the same result as seen from Model 2, supporting Hypothesis 2b ($\beta=0.00056$, $p<0.01$). Model 5, likewise, supports Hypothesis 3, showing the same results as seen from Model 3 ($\beta= -0.03584$, $p<0.001$).

VI. DISCUSSION

Based on agency theory, resource dependence theory, and stakeholders theory, this study try to determine the major function of a board of directors in Korean firms, and possible changes in it caused by cultural factors. To answer the research questions, first, we examined the moderating effect of independent directors on the relationship between organizational slack and a firm' CSR investment. Next, we explored the cultural influence on the role of the board by testing the moderating effect of Anglo-Saxon directors on slack-CSR relationship, when their representation on a board is more than that of Anglo-Saxon directors.

Before examining the moderating effects of independent directors and Anglo-Saxon directors, we first retested the main effect—how organizational slack and CSR would be associated. Consistent with previous research results (e.g., Arora, 2008; Seifert et al., 2004; Buchholtz et al., 1999; Waddock and Graves, 1997), we found a positive relationship between slack resources and firms' CSR investment.

We then tested our main hypotheses; independent directors are found to strengthen the relationship between slack resources and CSR investment, supporting Hypothesis 2b. Based on the limited data available, our finding thus lends support for the resource dependence theory and stakeholders theory, suggesting that the board could be concluded as an advisor, instead of a monitoring body of the firm.

Yet in a sense, these results are observed possibly because we established the study on Korean setting; drawing on cultural factors such as the country's corporate law tradition, prime role of the board could appeal in different ways. This led our third hypothesis, which examined the moderating effect of Anglo-Saxon directors, who tended to follow shareholder-centered model of corporate governance tradition. The result shows that Anglo-Saxon directors negatively moderated the main effect when they exceeded non-Anglo-Saxon directors in number, representing agency theory perspective.

Although the main function of the board in Korea is proposed to be resource providers in accordance with resource dependence theory and

stakeholders theory, the finding that Anglo-Saxon directors still follow shareholder driven theory indicates cultural factors, including corporate law of countries, indeed do matter in determining the role of the board. These findings may lead to a better understanding of boards of directors' roles, and the cultural effects on them. Reliance on these measures must be tempered, yet we only examined the foreign directors on boards in context of Korea, leading possible lacks in generalizability. Therefore, it is possible of course that comparative research across countries may produce somewhat different results. With more considerable data examined, future study could provide further scope on the board of directors and cultural influences on corporate governance of countries.

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ABSTRACT IN KOREAN

국문초록

An Analysis of the Function of Boards of Directors:

The moderating effect of BOD on the relationship between slack and CSR in Korean Firms

본 연구는 기업의 중요한 전략적 결정 가운데 하나인 기업의 사회적 책임(corporate social responsibility: CSR)투자에 영향을 미치는 기업 차원의 요인들을 분석함으로써 한국 기업에서 이사회역의 역할을 규명하고자 하였다. 구체적으로 본 연구는 대리인 이론, 자원의존 이론, 이해관계자 이론의 관점을 중심으로 기업의 사외이사과 영미권 지역 출신 이사들의 수가 이사회에서 차지하는 비중이 기업의 여유자원(organizational slack)과 CSR의 상관관계에 미치는 조절효과를 분석하였다. 한국의 1,662개 상장 기업을 대상으로 2008년부터 2013년까지의 6개년의 연구 기간을 설정하

여 실증 분석한 결과, 여유자원과 CSR의 긍정적인 관계는 사외이사 비중의 증가에 따라 강화된 반면, 영미권 지역 출신 이사의 수가 기타 지역 출신 이사의 수보다 많을 때에는 약화되었다. 상기와 같은 연구 결과는 이사회 핵심 역할을 설명하는 이론 중 자원의존 이론 및 이해관계자 이론을 지지하며, 특히 한국 기업에서 이사회가 조언자, 혹은 자원 제공자로서 기능함을 나타낸다. 그럼에도 불구하고, 이러한 이사회의 역할은 이사회 구성원의 출신 국가 및 해당 국가의 기업법 전통에 의해 영향을 받고 변화할 수 있음을 시사한다.

주제어: 이사회; 기업 여유자원; 사회적 책임 활동; 대리인 이론; 자원의존 이론; 이해관계자 이론

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